

## Why Save For The Future?

Joining the PERSI Choice Plan 401(k) may be one of the smartest moves you'll ever make. It would be hard for you to find a faster, easier way to accumulate money for the future. And, the sooner you join, the more substantial that money can be.

Realistically, you'll probably need more than Social Security and your PERSI Base Plan benefits to enjoy a comfortable, secure retirement. These benefits — never intended to be your sole means of support — may cover only about 60% of the income you'll need for the future.\*

The best way to adequately finance a comfortable retirement is by saving and investing now, while you are working. And, the PERSI Choice Plan can be one of your most important financial tools. It allows you to save and invest with pre-tax dollars. Plus, the PERSI Choice Plan offers you a wide selection of investment options and allows you to change your investments at any time.

## Investing Doesn't Have To Be Difficult

This guide is designed to help cut through the financial confusion and explain — in plain English — some of the basics of investing. It can help you get started, but the rest is up to you. Read the enclosed materials carefully, and become familiar with your investment choices. Consider your time frame until retirement, and then find an investment plan to fit your needs.

But, don't stop there. From time to time, review your investment strategy to make sure it's still in line with your retirement needs. The sooner you start making informed investment decisions, the more money you will have when you need it in retirement.

## The Advantage Of Pre-Tax Savings

One of the most important features of the PERSI Choice Plan is its tax advantage. When you save with pre-tax dollars, you do not pay federal income tax on that money until it is withdrawn. So, you have the opportunity to earn investment returns on money that normally would immediately go to the government. Because your pre-tax contributions are deducted from your pay before federal income taxes are figured, your current taxable income is lowered. You will pay less taxes out of your paycheck and you defer taxes on your contributions until you take a distribution from the Plan.

By joining the Choice Plan, you'll avoid one of the biggest financial mistakes that people make ... doing nothing!

\* A PERSI retiree with 30 years of service who also receives Social Security may expect the two to provide a replacement income of 83 - 96%. For the average PERSI retiree however, the PERSI Base Plan and Social Security together provide only about 50 - 60% replacement income. Your Social Security benefits are determined based on your income during your working lifetime.

## How Pre-Tax Saving Works

	Pre-Tax Savings In The Plan	After-Tax Savings In A Traditional Account Outside Of The Plan
Total Annual Pay	\$ 30,000	\$ 30,000
Your Pre-Tax Contribution At 10%*	\$ 3,000	\$ 0
Taxable Income	\$ 27,000	\$ 30,000
Federal Tax Withheld**	\$ 2,835	\$ 3,285
Net Income	\$ 24,165	\$ 26,715
After-Tax Savings Outside Of The Plan	\$ 0	\$ 3,000
Spendable Income	\$ 24,165	\$ 23,715
<b>Savings Advantage</b>	<b>\$ 450</b>	<b>\$ 0</b>

This example is hypothetical and for illustrative purposes only. Actual taxes will vary.

\* Federal taxes will be paid on pre-tax contributions upon withdrawal of funds but, in the meantime, you will have earned investment returns on them. You do pay Social Security taxes on your contributions to the Plan.

\*\* Based on a single individual with the standard deduction in 2004.

### Every Little Bit Counts

Every bit you save — no matter how large or small — increases your retirement resources. If you think you have plenty of time to start saving in the PERSI Choice Plan, here's something to think about.

It pays to start early. Even if you start small, over time your nest egg will grow. Let's compare the ending balances of three hypothetical participants at age 65 — one who began saving at age 21 and contributed for only 10 years, one who began saving at age 21 and contributed until age 65 and one who began saving at age 31 and contributed until age 65. The illustration at right shows the significant advantage of starting sooner rather than later. Beginning today and saving for just 10 years will add up to more than if you wait 10 years, then save for the next 34 years.

As you can see, it pays to start early. The participant who started to save at age 21 and stopped at age 31 has \$369,889 at age 65. The participant who started saving at age 31 and saved for the next 34 years, has less — \$295,852. And, the participant who began saving at age 21 and saved for the next 44 years has \$665,741!

Even if you're not in your 20's anymore, time can be on your side, so start now. Through compounding, the interest you earn on your investment goes on to earn even more. If you start now, you can put away a good-sized nest egg.

### It Pays To Save Now\*

Participant who begins saving at age 21 and contributes to age 65.

Participant who begins saving at age 21, contributes for 10 years, then stops.

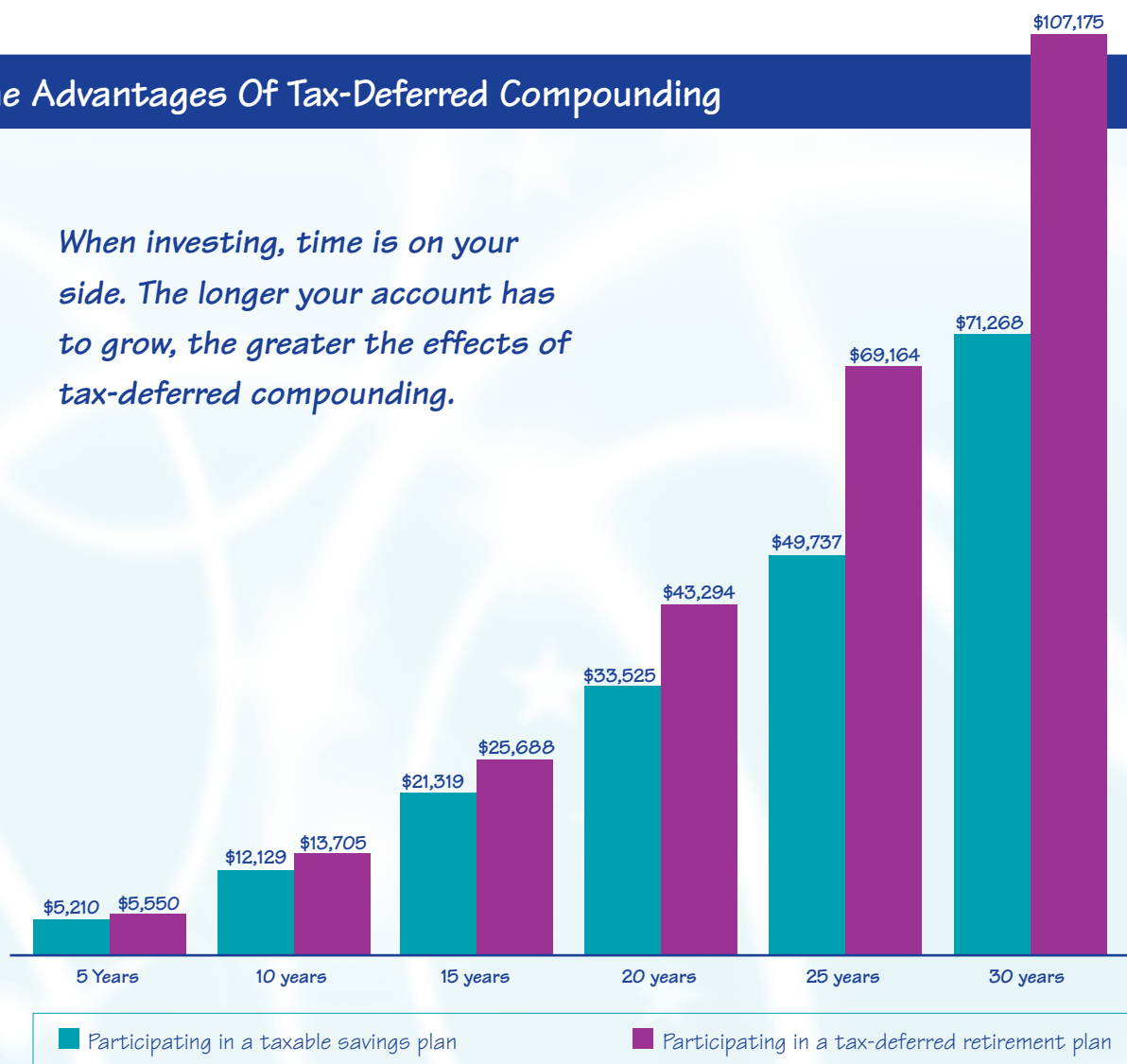
Participant who begins saving at age 31 and contributes to age 65.



\* This hypothetical illustration assumes an annual salary of \$30,000, an 8% annual investment return with monthly compounding and a 6% participant contribution. Returns of actual investments will vary.

## The Advantages Of Tax-Deferred Compounding

*When investing, time is on your side. The longer your account has to grow, the greater the effects of tax-deferred compounding.*



*Assumes a 27% tax bracket while contributing as an active employee and upon receiving a distribution at retirement, a constant 8% annual return, a \$1,200 annual investment in the tax-deferred retirement plan (pre-tax) and an \$876 annual investment (\$1,200 before taxes are withheld) in the comparable taxable plan. This example reflects federal income taxes only. This illustration is hypothetical and does not represent the performance of any particular investment. Your results may be more or less. Retirement assets will be taxed eventually (upon withdrawal), and there may be a 10% federal tax penalty for withdrawals made prior to age 59½. The imposition of current income taxes upon withdrawal or distribution will reduce accumulated amounts.*

## Understanding “Risk And Reward”

When choosing your investments, it is important to understand the relationship between “risk and reward.” It is a common phrase in investing, and it simply means that every investment has the potential for loss. The catch is that those investments with the lowest potential for loss — that is, the least risk — also tend to provide the lowest return potential — that is, the lowest reward. On the other hand, investments that are more likely to fluctuate up and down historically have provided the highest return over time.

## What Kind Of Investor Are You?

To invest wisely, you must decide what type of investor you are. How comfortable are you with risk? Where are you on your investment time horizon? Do you have many years until retirement, or just a few? What is your current financial situation? Answers to these questions are necessary to determine what type of investor you are and where you should invest your contributions.



Read each statement and circle the number that most accurately reflects how you feel about investing. Then, add up the numbers circled to get your total score.

### How Do You Feel About Investing?

Strongly Disagree

Strongly Agree

I accept higher risks in order to pursue a higher return on my investments.

1      2      3      4      5

It is important for the return on my investments to stay ahead of inflation.

1      2      3      4      5

I don't move my investments, even if they lose money during the course of a year.

1      2      3      4      5

I invest in the Plan to save for retirement, and therefore do not plan to take a loan or withdrawal.

1      2      3      4      5

I am well-educated about my investments, the markets and retirement issues.

1      2      3      4      5

Add up the numbers you circled. Enter the total here.

### What Kind Of Investor Are You?

Your Score

May Indicate That Your  
Investor Type Is ...

5 – 11

Conservative

12 – 18

Moderate

19 – 25

Aggressive

The type of investor you are shows how much risk you are willing to take with your investments.

## Choosing Where To Invest Your Savings

Most financial advisors suggest diversifying your portfolio to optimize performance for your risk tolerance, but how you do it is up to you. A diversified portfolio includes fund options with a mix of stocks, bonds and stable value instruments that allow you to optimize performance potential for your risk tolerance. While one investment is performing one way, a second investment may be performing in another way. So, a mix of investments or asset allocation, helps reduce your account's dependency on one type of investment choice.

The PERSI Total Return Fund is a balanced mix of all asset classes.

The range of investment choices in the PERSI Choice Plan gives you great flexibility in building your savings portfolio. Remember, how you invest your assets should be based on your own financial needs and circumstances, including your remaining working years, your overall financial situation and your risk tolerance.

### Types Of Investments

Before you invest in any of the funds offered in the PERSI Choice Plan, you will want to know how each fund invests your money. In general, the funds can be grouped into three classes.

**Stock Funds** — *Greater growth potential with greater risk.*

Stock funds purchase ownership, called “equity,” in a variety of companies. These portfolios seek to make money by sharing in the different companies' profits (in the form of cash dividends) or through capital appreciation (the increase in stock prices). Stock fund prices can be very volatile and can shift dramatically, but offer the highest growth potential.

**Bond Funds** — *Moderate growth potential with moderate risk.*

Bonds represent IOUs — usually from a company, government or government agency (the issuer). The organizations that receive these loans promise to repay the full amount on specific dates (the maturity date — one to 30 years in the future) and, in the meantime, promise to pay a stated rate of interest (the coupon rate) to the fund. Bonds generally carry less risk (and offer lower long-term return potential) than stocks. But, bonds have their own inherent risk to interest rates and credit risk of issuing parties. Bonds issued by corporations tend to be riskier, and therefore higher yielding, than those issued by governments.

**Money Market/Stable Value Funds** — *Price stability and liquidity.*

Investment funds in this category aim to protect the money invested in them. Money Market-type portfolios purchase short-term investments like bank certificates of deposit and U.S. Treasury bills. These investments may not pay high returns but also do not carry a lot of risk. They seek to maintain a value of approximately one dollar (\$1.00) per share or unit, but neither the value of the fund's portfolio nor an investment in the fund is insured or guaranteed and there can be no assurance that the value of units in the fund will not fluctuate.

*A mix of investments helps reduce your dependency on one investment choice.*



## Your Investment Time Horizon

The mix of investments you choose should change as your time horizon changes. Of course, it's up to you to decide what's right for you. Here are some common scenarios.

### Early Career — 30 - 40 years before needing your money

Being young is not an excuse . . . it's an advantage. With 30 or so years until you reach retirement age, don't be afraid to invest in stocks. Short-term dips in your account value are more likely to be made up over time. And, you have the most time to benefit from the growth potential of stocks.

#### Early Career

Lynn has almost 40 years before she retires. She can ride out fluctuations in her investments over time. She invests most of her retirement plan funds in stocks, for maximum growth potential.

75% Stocks 15% Bonds 10% Stable Value

### Mid Career

Paul and Kathy have 15 to 20 years before retirement. They continue to invest primarily in stocks, but they've increased their bond amount for added stability.

65% Stocks 25% Bonds 10% Stable Value

### Mid Career — 15 - 25 years before needing your money

As you approach the midpoint of your career, you are getting close to the years in which you will earn the highest income. But, as your income has increased, so have your expenses. Set a plan to make sure that none of your goals get shortchanged. Keep in mind that you have a long time to go before using the money you are investing, so you can probably continue to absorb some risk.

### Late Career — 5 - 10 years before needing your money

These are the years in which you begin to actively plan for your retirement. Your income level likely has peaked. Often, family debts like the house mortgage and college tuition are paid off. You should be increasing your savings as much as possible. At the same time, you should consider gradually reducing the amount of risk you have in your investments, because you are approaching the years when you will need your savings and don't want to face a major market downturn.

#### Nearing Retirement

Bill and Barbara are within a few years of retirement. They invest about half of their portfolio in stocks, but they also add to their bond and stable value investments, because they plan to tap their account soon.

50% Stocks 35% Bonds 15% Stable Value

### After Retirement

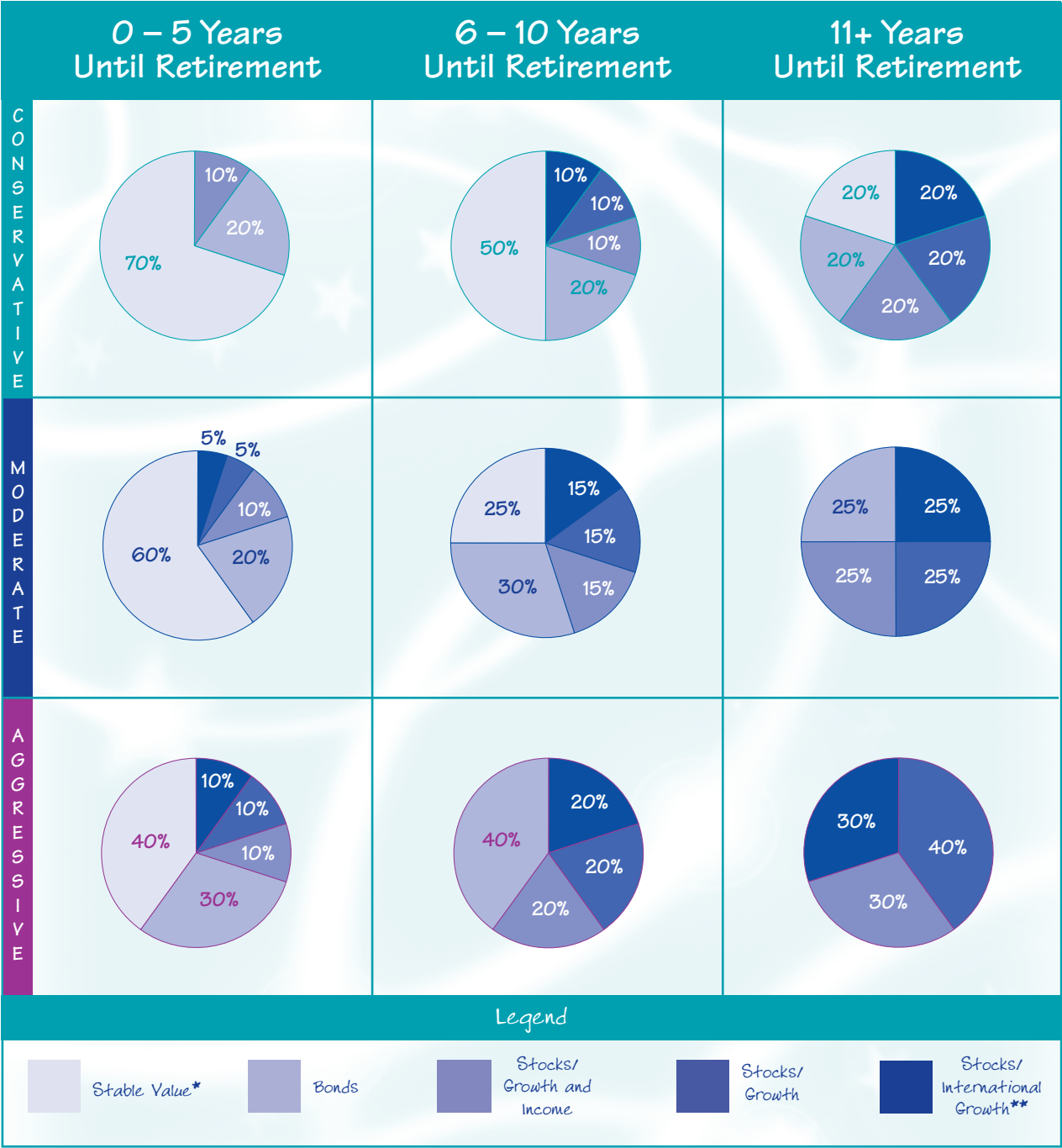
Many people will be retired for 20 years or more. Even after you retire, you may not need all of your savings immediately. Your investments should be liquid enough that you have easy access to them. But, you may still want to keep a portion invested in stocks so your overall growth potential has a better chance of keeping pace with inflation.

Note: These portfolios are not intended to be recommendations. They are examples only. These portfolios represent investors with a moderate risk tolerance. You may invest more conservatively or aggressively. When making your investment decisions, you should consider your risk tolerance, time horizon, assets, income and investments outside your employer-sponsored retirement plan (for example, IRA investments, savings accounts and individual securities).



## Sample Portfolios That May Fit Your Needs

Find your “Years Until Retirement”. Using your score from the “What Kind Of Investor Are You?” quiz, find the sample portfolio that matches your profile. The charts below are designed to help you choose a mix of investments that is right for you. They are not intended as investment advice. Consult a financial advisor if you have specific questions about your own financial situation.



These allocations are samples only. Please carefully consider your investment choices and read all available materials before investing. For more information regarding the investment options offered in the Choice Plan, call toll-free **1-866-437-3774** for prospectuses or product descriptions that contain more complete information. Please read the prospectuses or product descriptions carefully before you invest.

\* Investments in stable value funds are not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although stable value funds seek to preserve the value of your investment at \$1.00 per share or unit, it is possible to lose money by investing in the funds.

\*\* International investing entails additional risk such as currency exchange fluctuations and political instability.

## Terms You Need To Know

Following are some of the terms used when discussing investments and retirement plans.

**Capital Preservation** — An investment objective designed to keep the principal amount of an investment from fluctuating.

**Compounding** — A process in which the income your investment earns is reinvested in an effort to make your money grow faster.

**Distribution** — When talking about withdrawals, this term covers any payment made to you out of your PERSI Choice Plan 401(k) account.

**Diversification** — Basically, this means not putting all your eggs in one basket. For example, a mutual fund gives many investors a stake in a large selection of securities for only a fraction of the money they would need to invest directly in that many securities. This diversification helps reduce risk as the performance of their investment is not dependent upon a single security.

**Inflation** — The rate of increase in the price of goods and services over time.

**Investment Objective/Strategy** — Each fund has a specific goal (objective) and policy (strategy) that determines how it seeks to reach that goal. The objective and strategy that are best for you depend upon many factors (e.g., your goals, age, ability to assume risk, personal finances, etc.).

**Maturity Date** — The day an investment (principal) in a bond or other debt security is due to be paid back.

**Mutual Fund** — An investment company that pools the money of its shareholders to meet a common objective. Mutual funds are professionally managed and can offer investors portfolio diversification.

**Net Asset Value (NAV)** — This is the value of one share of a mutual fund. It is usually calculated once a business day, based on the closing market price for each security held in the fund's portfolio. It is determined by dividing the value of the fund's assets by the number of outstanding shares.

**Principal** — This is the dollar amount that you have invested (less any sales load, if applicable). It also includes any reinvested earnings. It will vary with the rise or fall of the fund's share price. Money market funds are designed to keep your principal at a stable value.

**Prospectus** — A document which describes a security offering, such as that of a mutual fund. It provides an in-depth description of facts and information relevant to the offering as required by regulatory authorities.

**Total Return** — The increase or decrease in the principal value of an investment, plus income dividends paid (assuming reinvestment), usually expressed as a percentage rate on an annualized basis.

**Security** — A general term that refers to stocks, bonds and other types of investments.

**Short-Term Securities** — IOUs issued by government organizations or corporations that are scheduled to be paid back in a short period of time, usually less than 13 months.

**Tax-Deferred** — When taxes otherwise due on an investment are put off until a future date.

**Yield** — A term describing the net income generated by a mutual fund, usually paid to you in the form of dividends which, in the case of a qualified retirement plan, are generally reinvested in additional shares. Various methods of calculating yield exist.